DOCUMENT RESUME

ED 237 135 JC 830 514

AUTHOR Silverstein, Roberta
TITLE Retirement Planning Handbook: Washington State Faculty Association of Community Colleges.
PUB DATE Mar 83
NOTE 32p.
AVAILABLE FROM Seattle Community College District, 400 Elliott Ave. W., Seattle, WA 98119 ($2.00).
PUB TYPE Guides - Non-Classroom Use (055)

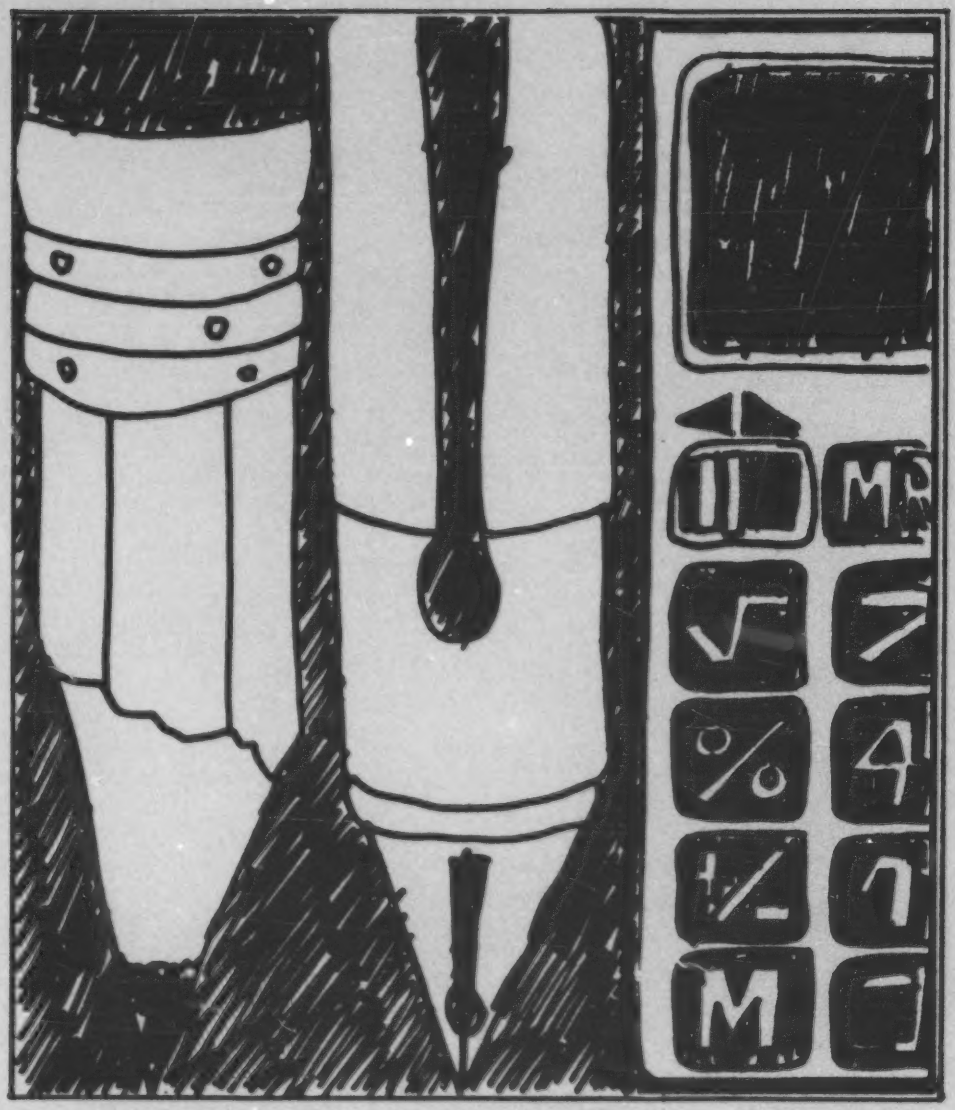
EDRS PRICE MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS *College Faculty; Community Colleges; *Preretirement Education; *Teacher Employment Benefits; *Teacher Retirement; Two Year Colleges

ABSTRACT

Designed for faculty and exempt administrators at Washington's community colleges, this handbook explains available retirement plans, deductions, and options. First, a glossary of terms and an index to sections of the handbook dealing with the concepts are provided. The bulk of the handbook uses a question/answer format to present information on topics including: different types of retirement plans, e.g., Teachers Insurance and Annuity Association (TIAA), College Retirement Equities Fund (CREF), Washington Public Employees Retirement System (WPERS), and Washington State Teachers Retirement System (WSTRS); taxation of retirement funds; contributions to retirement funds and benefits received; employer contributions; tax deferrals and deductions; supplemental retirement annuities (SRA's) and Individual Retirement Accounts (IRA's ; disability provisions in retirement plans; early retirement provisions; transferrance of retirement funds to another system or institution; the effects of early death or job termination; the costs of administering retirement funds; the assistance available from TIAA/CREF and WSTRS; post-retirement insurance; and sources of additional information on retirement and financial planning. An appendix presents an example of an early retirement agreement. (HB)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED237135



RETIREMENT PLANNING HANDBOOK

"PERMISSION TO REPRODUCE THIS MATERIAL IN MICROFICHE ONLY HAS BEEN GRANTED BY

R. Silverstein

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

This document has been reproduced as received from the person or organization originating it.
Minor changes have been made to improve reproduction quality.

Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

Washington State
Faculty Association of Community Colleges

March 1983

JC 830 514

WASHINGTON STATE
FACULTY ASSOCIATION OF COMMUNITY COLLEGES

RETIREMENT PLANNING HANDBOOK

PREPARED BY:
ROBERTA SILVERSTEIN
NORTH SEATTLE COMMUNITY COLLEGE

© ROBERTA SILVERSTEIN 1983

Introduction

This planning handbook has been prepared by the Washington State Faculty Association of Community Colleges (FACC) with the assistance of a number of people. Our purpose is to help faculty and exempt administrators in the community colleges understand your retirement plans, deductions, and options; and to plan wisely for your retirement. It is not our intention to steer you into one plan or another, but to provide factual information about alternative options which are open to you. The only retirement plans discussed in this handbook are TIAA/CREF and WSTRS Plan I.

This handbook is informational only. It is not intended to confer any benefits based on any information or statements contained herein.

Since this is a first attempt to provide this information, those of us who have had a part in the writing are aware that all questions have not been answered. In this regard, FACC needs your assistance in two ways. First, please tell us about those items in this handbook which are not clear and could be explained differently or with better illustrations. Second, please supply us with additional questions or concerns that you have which are not addressed in this handbook.

Our readers should be aware that there may be changes annually in any of the items discussed in this handbook. FACC will attempt to keep the information current and accurate. If you find that our information is not accurate, please let us know so that we may make the appropriate corrections and additions. The contact person is:

Roberta Silverstein, FACC
North Seattle Community College
9600 College Way N.
Seattle, WA 98103
SCAN 446-4669

Glossary and Index

Annuity

A contractual agreement between you and an annuity company. In return for premiums paid during your working years, the company promises to provide either a lump sum payment at the time of your retirement or a lifetime income during your retirement. All approved plans for community college faculty and exempt administrators have an annuity as part of the plan. *See #3,5,12,15*

Assignable

Transferrable to another party. *See #12*

Beneficiary

(also SURVIVOR) — A person or persons designated by you to receive the assets or benefits in your retirement account in the event of your death. *See #10,32,33*

Community Property

Washington is a community property state. This means that all real and personal property is jointly owned by the partners in a marriage. This extends to retirement accounts which may be assignable in the case of a dissolution. *See #12*

Deferred Compensation Plan

A plan available to all state employees under which you may defer federal tax liability by salary reduction, on amounts that may be deposited in any one of five financial institutions selected by the Washington State Deferred Compensation Committee. These include a commercial bank, a savings and loan institution, a credit union, an insurance company, and an annuity company. This plan is a tax shelter in that you agree to place a portion of your salary in an account with the understanding that the amount will not be counted as part of your current income for tax purposes. Tax will be paid on these funds when they are withdrawn from the account. *See #16,25*

Fiscal Year

Begins July 1st and ends the following June 30th. *See #7,11,27,28,32*

Fixed-Dollar Annuity

Provides a guaranteed fixed retirement income that does not change in amount from year to year except for dividends. *See #3*

Fixed-Period-Pay-Out

In TIAA/CREF, a period of 10 to 20 years may be chosen by you in which all retirement benefits due to you will be paid to you or your beneficiary. *See #10,33*

Graded Benefit Payment

An option in TIAA/CREF that provides for smaller retirement benefits in the early years, but increases gradually in an attempt to compensate for ongoing inflation. *See #3,10*

IRA—Individual Retirement Account

This is a plan approved by the federal government whereby an individual may invest up to $2000 per year in an approved plan and deduct the amount invested from taxable income when calculating income tax. *See #24,25*

IRS — Internal Revenue Service

Has certain rules governing various aspects of retirement and retirement planning. Your payroll office has information concerning these regulations. *See #14,15,16, 22,23,24,25*

Pension

The amount of money which you will receive after retirement from the proceeds of your retirement plan.

Regular or Required Retirement Plan

The mandatory contributions to TIAA/CREF or WSTRS which are deducted from your monthly paycheck as a full-time faculty member or exempt administrator of a community college. *See #2*

Repurchase

In the event you leave the employ of a participating college, you may be able to receive the money you have contributed to WSTRS or the accumulated value of your TIAA/CREF annuity. *See #34*

Retirement Benefit Goal

A minimum benefit paid to eligible TIAA/CREF participants, a guaranteed pension to actuarially equal the level of other state retirement programs. *See #7*

Retirement Transition Benefit

A lump sum payment equivalent to your contributions and interest in WSTRS and to 10% of your accumulations in TIAA/CREF which may be withdrawn at the beginning of retirement. *See #36*

Salary Deduction

Already taxed dollars which are used to purchase a retirement annuity. Only the interest earned on these dollars will be taxed in the future. *See #17,20*

Salary Reduction

Before-tax dollars which are used to purchase a retirement annuity. Tax will be paid on these dollars (and the interest they earn) when they are received as retirement income. *See #15,16,20,21,22*

State Board for Community College Education—(SBCCE)

Has certain rules and regulations governing the TIAA/CREF retirement plan for community college employees. *See Introduction, #7*

State Employees Insurance Board (SEIB)

Is responsible for making available health insurance, life insurance, and long-term disability insurance for state employees. *See #26,40*

State Supplement

For certain eligible TIAA/CREF retirees, a state guarantee that retirement benefits will be actuarially equal to those received by retirees with comparable service and final average salary who are on other state retirement plans. *See #6,7,10,26,28,29*

Supplemental Retirement Annuity (SRA)

An additional TIAA/CREF annuity consisting of funds you have contributed in addition to your mandatory retirement plan. These funds are tax-deferred and must be contributed by means of salary reduction. All WSTRS and TIAA/CREF participants are eligible to purchase an SRA. The purpose is to provide extra income for retirement. *See #12,13,17,19,21,22,24,25*

Survivor

See BENEFICIARY. *See #10,32,33*

Tax Deferral

An arrangement whereby funds from your earnings are placed into an account so as not to be counted as part of your annual income for tax purposes. Taxes are paid on these funds at the time they are removed from the account and given to you. These accounts must be in plans approved by the IRS. *See #2,15,16,18,19,20,23*

Tax-Shelter

See TAX DEFERRAL. *See #2,15,16,18,19,20,23*

TIAA/CREF

Teachers Insurance and Annuity Association and College Retirement Equities Fund. Companion organizations which provide retirement plans for university and college instructors and administrators and certain other personnel. It is a mandatory plan for faculty and exempt administrative employees of community colleges who are not already members of one of the other state plans. *See #2,3,5,7,8,9,10,12,13,17,18,19, 22,23,26,27,28,29,30,31,32,33,34,35,36,37, 38,39*

Vested

Means that you have met the requirements necessary to guarantee that you may not be terminated in your retirement plan and will receive benefits in accordance with the established practice for the particular plan when you are eligible to retire. *See #9*

WPERS

Washington Public Employees Retirement System—(PERS) — a retirement plan created specifically for classified civil service personnel. A person who has originally started with WPERS may choose to remain in that system even though she/he transfers to another position in state employment. *See #2,31*

WSTRS

Washington State Teachers Retirement System—(TRS) — This is an official State of Washington system originally created for public school teachers and college/university professional employees. Those who began in this system may choose to remain in the system whether or not they transfer to another agency. New community college professional employees may NOT choose this system unless they are already participants in it. *See #4,5,8,9,11,14,17,18,19,23, 26,27,28,29,30,31,32,33,34,36,37,38*

Table of Contents

I. Introduction
II. Glossary and Index
III. Questions and Answers

(1) When should I begin to plan for retirement?
(2) What kinds of retirement plans are available?
(3) What is TIAA/CREF?
(4) What is WSTRS?
(5) When can I retire?
(6) How much retirement income will I receive?
(7) What is a "state supplement" and how do I know if I am eligible?
(8) How much am I contributing to my retirement fund? How much is my employer contributing?
(9) When is my retirement fund vested and what does that mean?
(10) What are the retirement benefit options upon retirement from TIAA/CREF?
(11) What is the retirement allowance from WSTRS?
(12) What additional benefits are available? Who is eligible?
(13) Can I purchase additional lifetime annuity at any time?
(14) How does IRS treat retirement funds for tax purposes?
(15) What is tax-deferral? How is it done? When do I pay the taxes?
(16) What is salary reduction?
(17) What is salary deduction?
(18) Can I put more than the basic contribution into my retirement fund? Can it be tax-deferred?
(19) Can I tax-defer my regular retirement contribution?
(20) What are the advantages and disadvantages of tax-deferring income?
(21) How will salary reduction impact my income?
(22) If I choose a salary reduction plan, can I change my mind? When can I get my money?
(23) Is tax deferral available at the time of retirement?
(24) How do SRAs differ from the IRAs authorized by the 1981 Tax Act?
(25) How do I coordinate SRAs, IRAs, and Deferred Compensation?
(26) Does my retirement plan have a disability provision?
(27) How do I know how much money is in my retirement account?
(28) Can I work and still receive retirement benefits?
(29) Is early retirement possible?
(30) Are matching retirement contributions from my employer available if I work more than my basic contract?
(31) Can my retirement funds and service credits be transferred to another system or institution?
(32) What happens to my retirement funds if I die before I retire?
(33) What happens to my retirement funds if I die after I retire?
(34) What happens if I resign from my job or my job terminates?
(35) What is a retirement "transition benefit"?

(36) How can I find out what my CREF units are worth?
(37) What are the costs to me for administering my retirement funds?
(38) What kinds of assistance are available from TIAA/CREF and WSTRS?
(39) Where can I get additional information on retirement and financial planning?
(40) What kinds of insurance are available to me after I retire?

IV. Appendix I

1. When should I begin to plan for retirement?

The sooner the better. Retirement planning may impact your standard of living today (through tax-deferred annuities) as well as when you retire. As life expectancy increases, many of us may be looking forward to 20 or more years of retirement. The impact of an inflation-ridden economy may render most retirement incomes inadequate. Therefore, additional planning strategies may be necessary.

There are many reasons WHY retirement planning is important. Among these are the following:

Social security may change over time.

As college personnel, there are a number of tax-sheltered plans that you should explore, and if you choose one, you should begin to contribute early in order to provide the cash build-up you desire as well as take advantage of a tax deduction.

Insurance policies should be planned to be part of the entire retirement program. Since insurance is often purchased at an early age, planning needs to precede this purchase.

If both spouses work, the tax and retirement planning become doubly important in order to avoid undue tax payments and to make certain that adequate provision is made in case of untimely death.

Planning is particularly important in your final year of employment. Assuming you plan to retire on June 30, you should inform your benefits supervisor no later than January 1. That will allow you to request preliminary pension benefits estimates from TRS, PERS, or TIAA/CREF. These estimates will provide the basis for making your final plans.

2. What kinds of retirement plans are available?

1. Required (regular) — Full-time faculty and exempt administrators are required to contribute to either TIAA/CREF or to the WSTRS. For faculty currently joining the system, the choice is limited to TIAA/CREF unless previously enrolled in WSTRS. You must be 80% of full-time to be eligible for TIAA/CREF. Contact your benefits supervisor (payroll office) for details.

2. Voluntary (Supplemental Retirement Annuities—SRA)
   a. Tax deferred (e.g., TIAA/CREF, others)
   b. Non-tax deferred (e.g., purchased from an insurance company with after-tax dollars)

Your employer does not contribute on your behalf to voluntary plans.

3. What is TIAA/CREF?

Teachers Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) are nonprofit companion organizations whose services are limited to colleges, universities, independent schools and certain other nonprofit and tax-exempt educational institutions. Today, over 3,300 educational institutions in the U.S. and Canada provide participation in TIAA/CREF retirement plans. TIAA/CREF has over 640,000 participants and combined assets in excess of 14 billion dollars.

TIAA/CREF annuities are contractual agreements between a participant and TIAA/CREF which enable TIAA/CREF to accept employer and employee contributions, to invest those contributions on behalf of a participant, and to provide a participant with lifetime income. The TIAA "fixed dollar" annuity provides a guaranteed fixed retirement income that does not change in amount from year to year except for dividends. TIAA has recently announced an optional "Graded Benefit Payment Method" (see #10). TIAA invests contributions in fixed dollar obligations, such as mortgages and bonds. The CREF "variable" annuity provides a retirement income that varies somewhat from year to year, reflecting primarily the investment experience of CREF's common stock portfolio.

4. What is WSTRS?

The Washington State Teachers Retirement System (WSTRS) was established in 1938 as an agency of the State of Washington for the benefit of the public school teachers of the state. The system is operated by the State Department of Retirement Systems. An advisory board that includes representatives from the teaching profession provides the director of the department with guidance regarding the operation of the retirement systems. The individual's and the state's contributions are invested to provide funds to help meet the system's pension liabilities.

5. When can I retire?

TIAA/CREF

You may begin your annuity income on the first day of any month following termination of employment which may be earlier or later than normal retirement age, provided that income payments begin no later than age 80. You may elect to use multiple annuity starting dates so that TIAA income begins on one date and CREF income on a different date.

The TIAA/CREF plan is regulated by rules of the State Board for Community College Education (SBCCE). The rule on retirement age states that you must be at least age 62. You can begin receiving pension benefits earlier than 62, but you will not be eligible to receive a state supplemental benefit nor will you be considered retired in the technical sense. Also, this may affect your eligibility for the state retired employees insurance programs. See #40

WSTRS (Plan I only)

You may qualify for retirement if you:

1. have 30 years of service credit regardless of age; or
2. are 60 years or more of age and have at least 5 years of service credit; or
3. are 55 or more years of age and have at least 25 years of service credit.

6. How much retirement income will I receive?

Retirement income will be determined by the following factors:

1. which retirement plan you have participated in
2. length of service
3. age at which you begin benefits
4. which payment option you select
5. amount of your contributions (TIAA/CREF only)
6 eligibility for a state supplement (TIAA/CREF only)
7. your final average salary

7. What is a state supplement and how do I know if I am eligible?

The supplemental benefit is an additional pension amount that, if necessary, will increase the combined monthly benefit of a TIAA/CREF pension recipient. The supplemental benefit comes from your college district and is designed to increase your benefit, based on your service at a Washington public higher education institution, to a level actuarially equivalent to that of other state retirement programs (assuming equivalent service and earnings and within certain limits).

The supplemental benefit is based upon a "retirement benefit goal" established by the State Board for Community College Education. That goal is a pledge to provide no less than a pension equivalent to 50 percent of your final average salary, assuming you have 25 years of service, have attained age 65, and have contributed at the maximum allowable rate during years of employment. In effect, the goal guarantees a pension of 2 percent of final average salary for each year of eligible service (i.e., years during which you participated in TIAA/CREF) for those participants who qualify. Eligible participants who retire with less than 25 years service, who did not contribute at 10 percent after age 50, or who are under age 65 at retirement, receive a reduced benefit. ***Participants who, at the time of retirement, are under age 62 and/or who have less than 10 years of TIAA/CREF are ineligible to receive a supplemental benefit.***

The amount of the supplemental benefit is based upon a "special" calculation of your basic annuity benefit using a standard set of assumptions so that all TIAA/CREF participants will be treated uniformly with respect to this benefit. Any premium contributions you may have made to TIAA/CREF that were over and above the required contributions are excluded in this special calculation. Only service time earned and retirement contributions made to TIAA/CREF by you and the college while in the employ of a Washington public higher education institution are included in this calculation. The amount of any supplemental benefit will be reduced by 1/2 of 1 percent for each month you are under age 65, and will be calculated at a reduced rate for each year of service past age 50 and after July 1, 1974, during which you did not contribute at the highest rate possible, i.e., 10 percent of earnings.

Your years of eligible service multiplied by 2 percent and then by your final average salary (two highest fiscal years) will establish your pension guarantee. After any reduction, the amount of your supplemental benefit is the difference (if any) between the guaranteed amount and the "special" calculation based on your basic annuity value. You would receive this amount from your college district each month in addition to your TIAA/CREF basic annuity benefit payment and social security benefit.

The amount of the monthly supplemental annuity is fixed at the time of retirement and may only change, after payments begin, if you have chosen a survivor's option and you or your designated beneficiary die. You may choose a survivor's option as the basis for receiving both your basic annuity benefit and your supplemental annuity benefit. Information about these options is available from your campus TIAA/CREF administrator. The "special" calculation is used only to determine the amount of any supplemental benefit you may be entitled to receive. The amount you actually receive from your TIAA/CREF basic annuity benefit will very likely be a different amount, frequently, but not always, greater than this "special" calculation because of the way you may have varied the split of your contributions between TIAA and CREF.

Finally, it is possible that, given favorable TIAA/CREF investment experience, the amount of your basic annuity benefit would exceed the "retirement benefit goal". In that case, you would receive the higher amount and would not qualify for any supplemental benefit.

8. How much am I contributing to my retirement fund? How much is my employer contributing?

TIAA/CREF

Contributions (employee/employer matched) are deducted according to the following age brackets:

Age less than 35
5.00% of monthly gross

Age 35 to 50
7.50% of monthly gross

Age 50 and over
10.00% of monthly gross*

*Note: the 10.00% contribution rate is optional for those employees age 50 and over. Employees may elect to remain at the 7.50% contribution rate. However, be aware that this choice may reduce the amount of the state supplement, if you are entitled to receive a supplemental benefit.

WSTRS (Plan I)**

Employee contribution is 6.00% of monthly gross. No direct employer contribution is made. Funds are appropriated by the legislature to support WSTRS. Your contributions continue to receive interest annually (currently 5.5%) if they are not withdrawn and membership is not terminated.

**Note: WSTRS Plan I includes those employees who established WSTRS membership prior to 10/1/77. Information on Plan II (employees who joined after 10/1/77) is NOT included this handbook.

9. When is my retirement fund vested and what does that mean?

TIAA/CREF provides full and immediate vesting in the participant (employee) of the retirement and survivor benefits, including those purchased by the employer's contributions. (See question #34 for an exception).

WSTRS participants are vested after contributing for five years.

Vested means that the individual has met the requirements necessary to guarantee that she/he will receive benefits in accordance with the established practice for the particular plan when eligible to retire.

10. What are the retirement benefit options upon retirement from TIAA/CREF?**

Option (1) ***Single life annuity*** — all payments cease at your death.

Option (2) Survivor annuity — lifetime income to you. In addition, your designated beneficiary receives one of three options you choose:

(a) 2/3 benefit to survivor with 10 or 20 year guaranteed period.

(b) full benefit to survivor with 10 or 20 year guaranteed period.

(c) half benefit to ***spouse*** with 10 or 20 year guaranteed period.

All of the above will pay varying amounts, but usually less than Option (1). Option (2) provides that if both you and your survivor die during the 10 or 20 year guaranteed period, the selected benefit continues to your named beneficiary for the remainder of the period.

Option (3) ***Life income with 10 or 20 year guaranteed period*** — pays you an income as long as you live, with installments guaranteed to continue during 10 or 20 years, whether you live or die, to your named beneficiary.

Option (4) Installment refund (TIAA only) pays you an income as long as you live. If you die before your account is depleted, income will continue to your beneficiary until all the money is paid.

NOTE: As a means of accommodating inflation, you may receive your monthly pension using the ***Graded Benefit Payment*** (TIAA Only). Monthly payments start out small, so that dividends can be used to purchase additional amounts of lifetime annuity income. Thus, payments increase yearly.

**Note: the option you choose will impact the amount of money received by you and by your survivor(s). TIAA/CREF has brochures illustrating the various options. Contact TIAA/CREF or your payroll office for more details. If you are entitled to receive a supplemental benefit from the state, you may choose to receive it through Option (1) or either of the survivor's benefits in Option (2). The 10 or 20 year guarantee does NOT apply to the supplemental benefit.

11. What is the retirement allowance from WSTRS?

Your retirement allowance will be computed as follows:

> 2% times your years of service times the average of your two highest consecutive fiscal year salaries; divided by 12 equals your monthly benefit.

E.g., 2% × 30 years of service × $30,000 = $18,000/12 = $1500 per month

The maximum combined pension and annuity service retirement allowance is 60% of your highest average salary. Choosing one of the options will result in a lower retirement allowance. (See #33)

Also, you should be aware that at this time it is possible for you to postpone the initial payment of benefits from WSTRS until after the 1st of the year following retirement. This option may offer tax advantages.

12. What additional benefits are available? Who is eligible?

Regardless of what retirement plan you are participating in, all full-time faculty and other eligible employees may purchase annuities such as TIAA/CREF Supplemental Retirement Annuities (SRA). SRAs are "cashable" annuities designed for use by an individual who wishes to set aside tax-deferred funds over and above those funds being accumulated through his or her institution's basic, required retirement plan. These annuities differ from TIAA/CREF regular, non-cashable annuities in the following ways:

(1) SRAs provide for partial withdrawal of the accumulated value in cash in amounts of $1000 not more often than once every six months;

(2) SRAs can be surrendered for their full accumulated value in cash at any time;

(3) SRAs include a "fixed-period" pay-out option, i.e., you can arrange to withdraw funds over a specified period of time;

(4) SRAs are available only for premiums remitted on a tax-

deferred basis that do not exceed the contribution limits established by the Internal Revenue Code (Section 403(b) & 415)*

(5) SRAs have higher expense charges because of the cost of administering their additional features. See #37

SRA annuities are fully owned by the participant, provide the same choice of lifetime annuity options as regular TIAA/CREF annuities, do not provide for loans and are only assignable (transferrable to another party) in the case of a court order upon dissolution of a marriage under the Community Property Law. Your employer will NOT match contributions to an SRA.

Other annuities, with different features than TIAA/CREF SRAs, are available through your college, unions, insurance companies, etc.

*Note: Check with your payroll office.

13. Can I purchase additional lifetime annuity at any time?

TIAA/CREF and WSTRS participants may purchase Supplemental Retirement Annuities (SRA) at any time during employment from TIAA/CREF or from any other company that offers annuities.

WSTRS—may purchase additional lifetime annuity by making a lump sum contribution to your annuity fund when applying for retirement. The interest rate is currently 5.5%. When you retire, you may withdraw the annuity portion (your contributions plus accrued interest) from WSTRS. You should be aware that most of the annuity portion in WSTRS has already been taxed (the interest portion is tax-deferred; you pay tax when you receive it). You may withdraw only the already-taxed portion, if you do not want the taxable portion immediately.

14. How does IRS treat retirement funds for tax purposes?

Income that was taxed before deposit in a retirement account will be tax-free when received as retirement income. However, earnings (including dividends and interest) on that money will be taxed as ordinary income when received. Income from tax-deferred annuity purchases is taxable as ordinary income when received.

For example, in WSTRS, if you leave your annuity portion in WSTRS so that your retirement allowance is a combination of state pension and annuity, your retirement allowance will be tax-free until you have received the equivalent of your already taxed annuity contribution. After you have received that amount, all future retirement allowance will be taxed as regular income.

15. What is tax-deferral? How is it done? When do I pay the taxes?

Under provisions of the Internal Revenue Code, employees of educational institutions may make contributions toward the purchase of a retirement annuity and may have such contributions ***excluded*** from taxable income in the current year (see Salary Reduction, #16). Thus, the compensation is deferred to the retirement years when it will be taxable as it is received in the form of annuity income. This arrangement may be advantageous to you depending upon the amount of your retirement income, deductions available at the time of retirement, and tax rates at that time.

You must sign a salary reduction agreement with the college whereby the college agrees to purchase an annuity for you in lieu of an agreed upon amount of otherwise taxable salary. Taxes are paid when the retirement annuity income is received. Information on what tax deferred plans are available can be obtained through your payroll office or benefits administrator. IRS regulations allow you to execute only one salary reduction agreement or change thereof, during any tax year.

16. What is salary reduction?

Salary reduction is an option through which annuity premiums can be paid on a tax-deferred basis (with before-tax dollars) under an agreement with your employer executed in accordance with Section 403(b) of the Internal Revenue Code. You may have additional tax-deferred contributions applied to your TIAA/CREF regular annuities or to "cashable" Supplemental Retirement Annuities (SRA) by taking an additional salary reduction. Consult your payroll office for details and limits.

Such contributions and earnings thereon are not taxable until you receive them as benefits or you withdraw an SRA. If you are 65 and retired at that time, you very likely will gain a double federal income tax exemption and be in a lower tax bracket. State retirement plans such as WSTRS do not qualify for this tax-deferral privilege.

You may also reduce your taxable income by participation in the state Deferred Compensation Plan. A separate participation salary reduction agreement is required. IRS deferred compensation regulations allow deferring tax liability on as much as 25% of your annual income, or $7500, whichever is the lesser, but any deferred annuity contribution (e.g., TIAA/CREF) must be included in that total.

For further information on the State Deferred Compensation Plan, contact the State Deferred Compensation Committee in Olympia.

17. What is salary deduction?

TIAA/CREF

These dollars are taxed ***before*** they are contributed to TIAA/CREF. Employee premiums are deducted from salary payments ("after-tax dollars"). When you receive benefits in the form of annuity income during the retirement years, the portion of your annuity income that represents a return of your premiums, made by salary deduction of any additional amount you may have contributed, will NOT be subject to tax. The balance of your annuity income, the portion attributable to employer premiums and to investment earnings, will be subject to tax.

You can make additional personal payments to TIAA/CREF at any time either by asking the college to increase the amount of your salary deduction or by sending additional single premium payments to TIAA/CREF through your college payroll office. It is wise to make any such additional payments through your college payroll office so they can be excluded from the calculation of any possible supplemental benefit payable after you retire.

Remember, additional amounts you contribute into an SRA can be withdrawn by you at any time. Additional amounts contributed to your ***regular*** TIAA/CREF annuity only become available to you after retirement.

WSTRS

Only after-tax dollars may be sent to WSTRS to purchase additional annuity. WSTRS members are eligible to purchase TIAA/CREF SRAs or other annuities.

18. Can I put more than the basic contribution into my retirement fund? Can it be tax deferred?

TIAA/CREF

Yes, you can make additional personal payments at any time either by asking the college to increase the amount of your salary deduction (see #17) within Internal Revenue Code limits, or by direct payment to TIAA/CREF through your payroll office. Employers will NOT match such additional contributions.

WSTRS

You can, but these contributions do not qualify for tax deferral privileges and the earnings on them will probably be less than from either an SRA, other annuity, or a deferred compensation plan.

Be sure to examine the amount of interest available before choosing an option!

19. Can I tax defer my regular retirement contribution?

TIAA/CREF

Yes, you can tax defer your regular retirement contribution through a salary reduction agreement. The employer contribution is automatically tax deferred because you do not actually receive benefits based on that amount until the time of retirement.

WSTRS

No, you cannot tax defer your regular retirement contribution through a salary reduction agreement because the state plans do not qualify under IRS regulations. You may, however, purchase a tax-deferred SRA in addition to your regular retirement plan.

20. What are the advantages and disadvantages of tax-deferring income?

We cannot recommend any option, nor can we thoroughly discuss the advantages and disadvantages of any option. You should be aware of the possibilities as they may apply to your own personal situation. For example, Smith and Jones each decide to save and/or invest $100 from their gross salary each month. Both pay federal income tax at the 30% bracket.* Smith chooses to invest his $100 in a savings account that pays 10%. Jones decides to tax defer her $100 by means of salary reduction. It earns 10% also.

Smith may invest his money wherever he chooses and Smith owes no more tax on the original $100. Jones is limited in where she can invest her money and will eventually have to pay taxes whenever she receives the money as income. Hopefully, she will be in a lower tax bracket and have more deductions at that time.

*Jones salary reduction may drop her into a lower income tax bracket than 30%.

Smith (salary deduction)		**Jones (salary reduction)**
$100.00	original capital	$100.00
−30.00	federal withholding (30%)	−0
$ 70.00	amount left to invest	$100.00
+7.00	interest at 10%	+10.00
$ 77.00	end of year gross amount	$110.00
−2.10	tax on interest at 30%	−0
$ 74.90	end of year net amount	$110.00

21. How will salary reduction impact my net income?

For example, you choose to reduce your salary by $100 per month to purchase a Supplemental Retirement Annuity. Your take home pay may only be reduced $65 - $80 (depending on your exemptions, etc.) not the total $100, because it will not be taxed. Thus you have invested $100, but it may have only cost you $65-$80 of your take-home pay.

In all cases, your net pay decrease after salary reduction will probably be less than the actual salary reduction because federal taxes (with the exception of Social Security tax) will not be withheld on the amount reduced. Check with your payroll office to determine how salary reduction will affect your take-home pay.

22. If I choose a salary reduction plan, can I change my mind? When can I get my money?

Your salary reduction agreement can be cancelled by notifying your payroll office. IRS regulations allow only one change in any tax year. You may switch to a salary ***deduction*** plan for regular TIAA/CREF annuities and/or TIAA/CREF Supplemental Retirement Annuities. SRAs can be cashed in not more often than once in six months in whole or in part (in amounts of $1000) at which time tax will be due. See the TIAA/CREF booklet ***Supplemental Retirement Annuities*** for details. Regular TIAA/CREF annuity income is only payable in the form of monthly benefit payments upon retirement, except for a 10% lump payment at the time of retirement. See #23,36

23. Is tax deferral available at the time of retirement?

TIAA/CREF

No. You may receive 10% of your TIAA/CREF annuity value in a lump cash payment upon retirement. The remainder can only be received as a monthly pension benefit. Current IRS regulations do not allow this 10% to be rolled over into an IRA.

WSTRS

No. WSTRS does not qualify under IRS rules. Monies withdrawn at the time of retirement are the after-tax dollars you contributed plus accrued interest. Only the interest portion is taxable as ordinary income.

24. How do SRAs differ from the IRAs authorized by the 1981 Tax Act?

SRAs are unaffected by the 1981 Tax Act and they offer more liberal and more flexible tax-deferral provisions than the IRAs created by the 1981 Tax Act.

SRAs are more liberal because you can defer tax liability on as much as 25% of your annual income, or $7500, whichever is the lesser (check with your payroll office for the limits that apply to you). This 25% includes before-tax pension plan contributions (TIAA/CREF only, see #19) as well as SRAs.

SRAs are more flexible because there is no penalty on cash or income payments from SRAs. IRAs cashed before age 59½ are subject to a penalty.

For SRA plan participants who are now at the maximum permitted by the Internal Revenue Code, the 1981 Tax Act offers an additional opportunity for tax deferral. An ADDITIONAL $2000 can be deposited in an account (IRA) established with a bank, mutual fund, insurance company, or other financial service organization and a tax deduction can be taken for that year when you file your income tax return with the Internal Revenue Service.

25. How do I coordinate SRAs, IRAs, and deferred compensation?

A recent national study concluded that your first tax-deferred investment should be in a tax-deferred annuity such as an SRA. These have the least load (fees) and the most flexibility (see #24). The second investment should be an IRA, again, because of low load. According to the study, the deferred compensation plan should be your third choice because you typically pay more for this service. We urge you to investigate the possibilities and make your decision on the basis of YOUR findings.

26. Does my retirement plan have a disability provision?

You should be aware that in either TIAA/CREF or WSTRS, the amount of your benefit will be deducted from any Long Term Disability Insurance benefit you may receive from the State Plan offered by the S.E.I.B. For that reason, it may not be to your benefit to receive a disability payment from either TIAA/CREF or WSTRS.

TIAA/CREF

There is no specific disability provision, but you may begin your monthly annuity benefits at any time you terminate employment. If, subsequently, you return to work, you would continue to receive your TIAA/CREF monthly benefit (except any supplemental amount from the state) and would once again participate on a regular basis, making TIAA/CREF monthly contributions into a new account. The monthly benefit does NOT stop once begun. You CANNOT reinvest this amount to TIAA/CREF through an SRA because contributions to SRAs can only be made by salary reduction. However, you could purchase an SRA from your regular salary on a tax-deferred basis.

Note: Under the S.E.I.B. Long Term Disability plan, if you become totally disabled during the first five years you are eligible to participate in TIAA/CREF, any benefits recieved from TIAA/CREF will not be considered to be deductible benefits. However, if you become totally disabled after the first five years in TIAA/CREF, any benefits from TIAA/CREF will be considered deductible benefits only if they are actually received by you.

WSTRS

Yes, if you are disabled at the time of active membership, after 60 days of disability, you are eligible for up to 24 months of temporary disability pay at $180 per month (retroactive to the date of your disability). You may also qualify for disability retirement if you are eligible for regular retirement and terminate your employment.

27. How do I know how much money is in my retirement account?

TIAA/CREF

You are provided a statement of accrued value of your annuity at the end of every calendar year (December 31). This TIAA/CREF statement usually arrives in February or March. Known as the "Blue and Yellow" sheet for regular accounts and the "Pink and Grey" sheet for SRAs, these statements also project hypothetical retirement benefits.

WSTRS

You are provided a statement of account at the end of every fiscal year (June 30). This statement does not provide sufficient information for planning. At any time, you may request a more complete work-up of your retirement benefits by calling WSTRS in Olympia. See #38

28. Can I work and still receive retirement benefits?

TIAA/CREF

Yes. There are no limits after retirement from your regular position. However, if you are receiving a supplemental benefit from the state, that payment will cease if you are reemployed for more than 40% of full-time, or 70 hours per month, or for a period of more than five months duration in any fiscal year in a TIAA/CREF eligible position.

WSTRS

Generally, WSTRS has restrictions on the number of days of public school employment you may accept before the pension portion of your retirement allowance is reduced. In any one year, you can work 75 days for a public educational institution anywhere in the United States without penalty. You may work without restrictions in private business or in private educational institutions. You may work for another state agency (non-educational) but you may NOT join another Washington state retirement plan while receiving a WSTRS pension.

The Department of Retirement Systems does not consider that you are "retired" if you appear on a payroll in a WSTRS eligible position (e.g., full-time) within six weeks of termination (although this rule is neither written nor generally known throughout the educational community). We do not believe this precludes a retired teacher from returning as a part-time faculty member immediately after retirement. The rule does not apply to persons reemployed on the basis of a personal services contract.

29. Is early retirement possible?

Yes. At this time, early retirement is possible through a negotiated agreement between the individual college and the faculty. An example of a negotiated early retirement agreement is included in Appendix I. Service credit and age requirements must be met for WSTRS. TIAA/CREF participants may begin receiving monthly benefits, but state supplemental benefits cannot be received unless you are at least 62 years of age at the time of retirement and have at least ten years service credit in TIAA/CREF in one or more Washington *public* higher education institutions.

30. Are matching retirement contributions from my employer available if I work more than my basic contract?

Yes. Both WSTRS and TIAA/CREF contributions from you and your employer must be paid on all salary earned.

31. Can my retirement funds and service credits be transferred to another system or institution?

TIAA/CREF

You own the entire accumulated value of your annuities independent of any institution by which you are employed. Years of service (service credits) in TIAA/CREF are significant only in that they are used in calculating the eligibility for and the amount of any supplemental benefits you might receive from the state. Years of service for this purpose are transferable among all Washington ***public*** higher education institutions.

WSTRS

Membership transfers to any state agency. Members may continue to participate in TRS if employed by another state agency if they indicate a desire to remain at the time they change employment. If a former TRS member becomes a member of WPERS (Washington Public Employees Retirement System), service earned with TRS does NOT transfer to WPERS nor does WPERS service credit transfer to WSTRS. WSTRS service does NOT transfer to TIAA/CREF.

32. What happens to my retirement funds if I die before I retire?

TIAA/CREF

If you die before retirement, the full current accumulated value of your annuities, including the portion paid by your employer(s), is then payable to your named beneficiary. Several income options are available to the beneficiary. A single sum is also available unless you do not permit it by means of previous arrangement.

WSTRS

A death benefit of $600 is paid from the Death Benefit Fund to the beneficiary of a deceased member who died while employed on a full-time basis or while receiving (or eligible to receive) temporary disability benefits. The deceased member must have had at least one year of credit for full-time in the school year preceding the year of death and must have worked at least 50 consecutive days during the fiscal year in which death occurred. A death benefit of $400 is paid upon the death of an inactive, non-contributing member with ten or more years of full-time WSTRS service credit.

If the member dies before completing ten years of service or if the member was not eligible to retire, the beneficiary receives the member's accumulated contributions. If the member had ten or more years of service or was eligible to retire, the qualified beneficiary may elect to receive a survivor's retirement allowance instead of a cash refund. The amount depends on the option chosen, years of service credit and amount of salary. The WSTRS office in Olympia should be consulted for particulars.

33. What happens to my retirement funds if I die after I retire?

TIAA/CREF

The selection of an income option is made by you at the time annuity income is to begin. Like the annuity starting date, you may select one income option for all of your benefits, or one option for part of the accumulation and another for another part. Once annuity income payments have begun, the method of payment cannot be changed. The option may be designated by you or it may be left to the choice of your beneficiary. (See Option 4)

Option (1) income for your lifetime with payments ceasing at your death.

Option (2) income for your lifetime with a minimum number of payments guaranteed for 10 or 20 years.

Option (3) income for a fixed period of years.

Option (4) the accumulation may be left on deposit for later payment under any of the above options.

WSTRS

If you choose the maximum retirement allowance, your beneficiary will receive the unpaid portion of the final monthly allowance due on the date of your death. Other choices include the following:

Option (1) pays in a lump sum, if any, the remaining annuity balance and the unpaid portion of the final monthly allowance.

Option (2) Joint and last survivor option—reduced retirement allowance to retiree, continued to beneficiary for life.

Option (3) Modified joint and last survivor option—reduced retirement allowance to retiree for life and thereafter one-half of the reduced retirement allowance paid for the lifetime of the beneficiary.

There is also a death benefit, a one time payment of $400 to the beneficiary of a retiree who had ten or more years of service credit.

34. What happens if I resign from my job or my job terminates

TIAA/CREF

If you are not moving to another TIAA/CREF institution and if none of your TIAA/CREF contracts are older than 5 years (or are worth less than $2000), the contracts may be redeemed for a single sum (if annuity income has not begun). This is called a "repurchase." When a repurchase occurs, the annuity value attributable to the employer's contribution is recovered by your institution. You receive only the amount based on your contributions. If your annuity has been in force for more than 5 years, you may receive payment in the form of monthly benefits based on both your contribution and your employer's contribution.

You may, of course, leave your annuities to accumulate value until your regular retirement, at which time you may receive monthly benefit payments.

WSTRS

You may withdraw your accumulated contributions only if you have terminated all active TRS membership in Washington State. Members who request a refund and contract to, or do resume Washington public school employment before a refund is made, are not eligible for the refund payment. Withdrawal of your contributions terminates your membership and cancels all rights and benefits you may have accrued in the retirement system. Service credit cancelled by withdrawal may be reestablished upon returning to membership subject to the laws in effect at that time.

35. How can I find out what my CREF units are worth?

CREF unit values are reported weekly in the Chronicle of Higher Education. Also, CREF provides a toll-free number 800-223-1290, which gives a daily report on the investment experience of the CREF common stock portfolio. The recorded message quotes the previous month-end value of the accumulation unit and the percentage increase or decrease in the market value of the CREF portfolio to date.

36. What is a retirement transition benefit?

TIAA/CREF

You may receive a lump sum payment of up to 10% of your TIAA/CREF accumulations at the time you start your annuity provided:

(a) you are at least 55 years of age.

(b) the lump sum payment does not exceed 10% of the contract's accumulation then being converted to annuity payments.

Your annuity income will be based on the remaining 90% of the accumulation.

WSTRS

You may, at the time of retirement, withdraw all or part of **your** accumulated contributions plus interest. This will reduce your retirement allowance.

37. What are the costs to me for administering my retirement funds?

TIAA/CREF

For all TIAA and CREF annuities, whether in the accumulation or payout stage, an annual operating expense charge will be deducted from investment earnings. This is approximately 1/4 of 1% of annuity assets in TIAA and 1/5 of 1% in CREF.

For SRA contracts only, there is a 1.5% premium charge to cover the additional costs associated with cashable tax-deferred annuities. Charges are subject to change in the future.

WSTRS

None.

38. What kinds of assistance are available from TIAA/CREF and WSTRS?

Your payroll office is your first source of information. It has brochures and other information about retirement.

For further information, you may contact:

WSTRS
1025 E. Union
Olympia, WA 98504
206-753-5283 or SCAN 234-5283
to arrange an individual conference with a WSTRS counselor or to ask questions.

TIAA/CREF mails a booklet, "From Now to Retirement" to all participants age 55 or older who have not yet begun their annuity income.

TIAA/CREF offers pre-retirement counseling seminars available to participants age 55 and older across the country. These seminars discuss annuities, Social Security, and Medicare.

TIAA/CREF and WSTRS send counselors to college campuses upon request to discuss their programs with interested faculty and exempt personnel.

TIAA/CREF
730 Third Avenue
New York, N.Y. 10017

TIAA/CREF phone numbers: Have your contract numbers available when you call.

Questions from retired employees:
212-490-9000 (call collect)
Individual life insurance
800-223-1200 (toll free)
CREF unit value information
800-223-1290 (toll free)

39. Where can I get additional information on retirement and financial planning?

Your payroll office is your first source of information.

Many of our community colleges offer courses in retirement and financial planning.

Questions about the State Board rules governing TIAA/CREF and Supplemental benefits may be addressed to:

Dr. Gil Carbone,
Assistant Director
State Board for Community
College Education
319 - 7th Avenue FF-11
Olympia, WA 98504
SCAN 234-3650

40. What kinds of insurance are available to me after I retire?

TIAA/CREF

You are eligible to purchase health insurance, dental insurance and a small amount of life insurance through the State Employees Insurance Board (SEIB). You must send monthly payments directly to the SEIB to purchase insurance.

WSTRS

You are eligible to purchase health insurance, dental insurance and a small amount of life insurance through the SEIB. You may have the premiums deducted from your pension check.

APPENDIX I

EXAMPLE OF A NEGOTIATED EARLY RETIREMENT AGREEMENT

Full-Time Employee Retirement

Retirement Age

The mandatory retirement age for full-time academic employees of the college shall be seventy (70) years.

Year of Retirement

Such retirement shall occur by the end of the fiscal year during which the academic employee's seventieth (70th) birthday is attained.

Retirement Incentive Program

As required by State law, the new Tacoma Community College Retirement Program establishes age 70 as the mandatory retirement age for Tacoma Community College employees. In order to make retirement before age 70 more attractive, the new Retirement Program presents the prospective retirees with three options: Phased Retirement, Retirement Transition, and Early Retirement. Employees retiring before age 63 may be allowed to select one of these options subject to the condition that the option is educationally and economically feasible and subject to the condition that early retirement is of sufficient benefit to the College. Any retirement option entered into must be established in writing and agreed to by the employee and the College.

If at any time during an academic year an academic employee eligible for and contemplating retirement so requests, he shall receive from Management within 20 working days a statement as to whether his choice of one of the "retirement incentives" at the end of the year will be "educationally and economically feasible" and "of sufficient benefit to the College."

(a) Phased Retirement

This option provides for reduced levels of employment following official retirement. It is available to employees ages 55 to 68 who are otherwise qualified for retirement under their respective employment plans and who have accumulated at least 10 years of service. The level of employment may not exceed 75 days per year of full-time employment or its equivalent or less, and the period of reduced employment may continue up to five years after retirement. The level of compensation will be a proportion of the normal full-time salary for the position to which the employee is assigned during the Phased Retirement period. A condition of the agreement will be that the employee exercises an intentional, voluntary and intelligent waiver of his or her rights as a tenured faculty member in exchange for participation in the phased retirement option. The academic employee shall not be dismissed without just cause and due process.

(b) Retirement Transition Option

This option provides that an employee with 10 or more years of service who retires after reaching age 62 but prior to reaching age 63 may choose either to receive income equal to full pay for a period of six months following retirement, or income equal to 1/2 pay for 12 months following retirement. The employee's base salary at the time of retirement will be used to determine the amount of income to be received. Employees with more than five but less than ten years of service will receive a proportional amount. For example, an employee with nine years of service will receive 90 percent of the amount he would receive if he had ten years of service. An employee with less than five years of service does not qualify for retirement under any option.

(c) Early Retirement Option

This option provides that an employee with 10 or more years of service who

retires at age 55 to 63 will receive, in the first year after retirement, an amount equal to 1/3 of his base salary at the time of retirement. In the second year, the amount received will be 1/4 of the salary level; in the third and final year to which this option applies, the amount will be 1/5 of the salary level.

(d) Death of Retiree

Upon the death of an academic employee participating in either (b) Retirement Transition Option or (c) Early Retirement Option, the employee's estate shall be entitled to receive death benefits based upon the same schedule as the one to have been received by the deceased participant.

(e) Benefits

Employees exercising any of the options offered in this section, whose teaching loads fall below half-time, will not be subject to the benefits otherwise accruing to full-time academic employees.

ERIC Clearinghouse for Junior Colleges
8118 Math-Sciences Building
University of California
Los Angeles, California 90024

DEC 16 1983